

G S W Inc. Annual Report 1999

G S W



the **future** is taking
shape

GSW

the future is taking shape



GSW Inc., a Canadian controlled corporation, continues to be a progressive leader in its consumer durable products markets. Operating within the residential building products industry, the company manufactures three broad product lines with approximately 750 employees at its three manufacturing locations.

For more than 150 years, GSW has responded to the challenges associated with ongoing shifts in its competitive and customer environments. GSW has recognized the importance of building a solid foundation by focusing its efforts on long term growth. Through ongoing cooperation amongst its stakeholders, GSW is harnessing its combined strengths to establish itself as a leading North American supplier.

GSW Inc. Corporate Profile

To further our business mandate, we have adopted the following Mission Statement: GSW markets and manufactures consumer durable products in North America.

Our goal is to produce need fulfilling, quality products with quality people, in quality facilities, in a quality environment.

Our operations are driven by the needs of our ultimate product users – whether they be consumers or installers. These needs are ascertained by continuous market feedback, gained by surveys, focus groups and anecdotally.

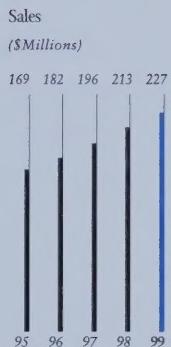
We work closely with our retail and wholesale partners to reach the end user by providing quality products, on time delivery and electronic commerce. Our design and manufacturing operations create value by filling customers' needs and we act as a partner with our suppliers in reaching these goals. We benchmark all of these activities against "best in class".

We treat customers, suppliers, employees and other stakeholders as we would wish to be treated – in an open, fair and honest manner.

Financial Highlights

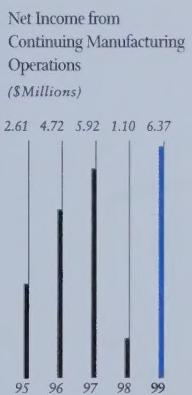
Results for the Year

(In thousands of dollars except per share data)	1999	1998	1997	1996	1995
Sales	227,127	212,656	195,856	182,149	168,754
Net income after tax:					
From continuing manufacturing operations	6,370	1,104	5,924	4,718	2,605
Investment income	720	640	200	—	—
Share of net (loss) of Camco Inc.	—	—	—	—	(1,636)
Income from continuing operations	7,090	1,744	6,124	4,718	969
Income (losses) from discontinued operations	4,456	(1,070)	(4,186)	(3,149)	(2,192)
Net income (loss) after tax	11,546	674	1,938	1,569	(1,223)
Earnings (loss) per share					
- continuing operations	1.95	0.47	1.67	1.28	0.26
- net earnings (loss) per share	3.18	0.18	0.53	0.43	(0.33)
Dividends paid per share	0.20	0.20	0.20	0.20	0.20



Financial Highlights at Year-End

(In thousands of dollars except per share data)	1999	1998	1997	1996	1995
Working capital	52,973	41,210	37,891	35,747	33,014
Current ratio	2.5 to 1.0	2.0 to 1.0	1.9 to 1	1.9 to 1	1.8 to 1
Capital assets at net book value	11,970	15,330	17,374	16,839	21,325
Total assets	115,875	111,411	114,222	106,299	110,897
Shareholders' equity	76,434	68,715	67,423	63,622	64,654
Number of common and subordinate voting shares outstanding at December 31	3,599	3,674	3,674	3,674	3,674



Directors

R.M. Barford
J.A. Barford (2)

S.T. Bellringer (1)
R.M. Feldt (1)

W.C. Garriock (1) (2)
E.A. Kukiel (1) (2)

G.L. Moreau (1) (2)
N.G. Thomson (1)

Officers

R.M. Barford
Chairman
J.A. Barford
Vice-Chairman

D.G. Fixter
Sr. Vice-President,
Organizational &
Business Development

P.R. Martineau
Vice-President &
CFO

R.R. Cranston
Secretary

(1) Members of the Audit,
Environmental & Pension Committee

(2) Members of the Management Resources,
Compensation and Corporate Governance Committee

Head Office

20 Eglinton Avenue West, Suite 1903 P.O. Box 2047 Toronto, Ontario M4R 1K8
Tel: (416) 489-0640 Fax: (416) 489-1476

Corporate Office

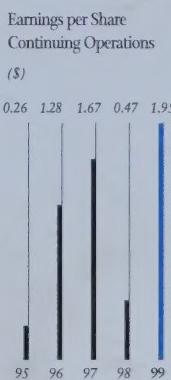
Research Park Centre 150 Research Lane, Suite 210 Guelph, Ontario N1G 4T2
Tel: (519) 763-7700 Fax: (519) 763-6791 Website: www.gsu.ca

Share Transfer Agent
CIBC-Mellon Trust

Bank
The Bank of Montreal

Auditors
Ernst & Young LLP

Annual
Shareholders'
Meeting
April 25, 2000
Royal York Hotel
Manitoba Room
100 Front St. W.
Toronto, ON
at 11:00 a.m.





Report of the Board of Directors to Shareholders



We are pleased to report that GSW Inc. had a significant recovery in 1999. Through the diligent efforts and focus of our employees we have established a sound platform to accept the challenges of the future.

GSW's after tax earnings from continuing operations were \$7,090,000 or \$1.95 per common share in 1999 compared to \$1,744,000 or \$0.47 per common share in 1998.

As a result of the strategic review of operations conducted in 1998, the Company took the decision to exit the Heating Products segment. Late in the first quarter the assets of the factory built chimney operations were sold and during the second half of 1999, the Company completed the sale of the product lines and assets of its Jackes-Evans Manufacturing operations in St. Louis, Missouri. The divestiture of the Company's Heating Products operations resulted in net proceeds of \$14,950,000 and an after tax gain of \$4,456,000 (\$1.23 per common share).

We believe that by focussing on a narrower range of product lines we have created a stronger foundation for future growth. During the coming year, management will accelerate efforts to identify and pursue opportunities for growth in more attractive product and market segments.

The net income for 1999 was \$11,546,000 (\$3.18 per common share)



compared to \$674,000 (\$0.18 per common share) in 1998. Included in this amount are \$720,000 in dividends received from the Company's investment in Camco Inc. compared to \$640,000 in the prior year.

GSW's sales from continuing operations for 1999 were \$227,127,000 an increase of 6.8% over 1998. Despite relatively stable demands in our product markets we were able to improve our

share in each category. The markets within which we participate continue to undergo significant change characterized by shifts in the channels of distribution and customer consolidation. In addition, manufacturers are being mandated to increase their ability to service seasonal shifts in demand and develop more consumer friendly products and after sales service capabilities while expecting a minimum level of price adjustments.

GSW has recognized the need to be proactive in this challenging environment and accordingly has accelerated its efforts in several key areas. We have maintained our significant investment in product research and development activities, expanded our global component parts supply arrangements and accelerated



spending in manufacturing process automation.

Late 1999 saw the formation of the DART Team, a group of employees from across all functions of the Company exclusively dedicated to the replacement of our existing information systems platform with a recognized enterprise resource planning system. This initiative will provide the foundation and capability to improve our logistics systems, facilitate our growth plans, allow for the development of e-commerce initiatives and will streamline our administrative processes. Additionally, we are pleased to report that our year 2000 compliance efforts have been successful with no interruption of business processes being experienced.

Business Operations

GSW Inc.'s net income from continuing business operations (consisting of water heaters, pumps and vinyl building products) increased to \$6,370,000 (\$1.75 per common share) from \$1,104,000 (\$0.30 per common share) in 1998. Spending on capital assets increased by \$1,703,000 to \$3,991,000 in 1999 reflecting our investments in the improvement initiatives noted earlier.





Amortization expense was \$2,575,000 compared to \$2,319,000 in the prior year while net interest income was \$935,000 compared to \$221,000 in 1998.

After recording significant revenue gains in 1998, sales in GSW's Water Heating Company increased nominally during the past year. Our review of our manufacturing operations which commenced in 1998 has resulted in several key improvements including the expansion of the tank enameling capacity, cycle time reductions and design improvements which have reduced production costs. During 1999 GSW's engineering personnel played a leading role in a North American water heating industry consortium which has developed a solution to new regulatory standards for the control of flammable vapor emissions. In addition, GSW introduced its new direct vent water heater to the Canadian market. This new design allows homebuilders and plumbing contractors greater flexibility in the product's installation.

During 1999 GSW's Pump Company completed the consolidation of

its operations in Conway, Arkansas by establishing a North American customer service centre and by outsourcing its Canadian distribution requirements as part of our continuous improvement programs to service this important retail segment. Sales of our Pumps products continued to grow well above market levels demonstrating the continued success of the Trade Area Potential program in the professional market. In addition, the company has made steady progress in the large U.S. retail market.

For the GSW Thermoplastics Company, 1999 saw the launch of its line of vinyl railing products into both the professional and retail market. By

utilizing new production methodologies, the company also developed a unique spindle product for use in both wood and vinyl railing applications. This new vinyl railing is being designed to meet a variety of stringent building code standards while providing the consumer with an attractive durable and maintenance free alternative to conventional wood products. Recognizing the continued rapid growth of vinyl building products, the Thermoplastics Company commenced the launch of vinyl fence and deck products on a test basis. In the coming year, the company will commit resources to product development, plant expansion and manufacturing capacity.



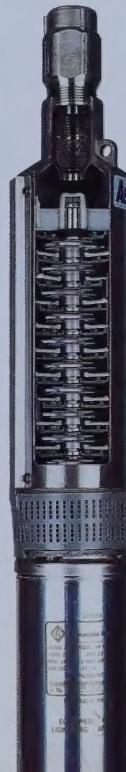


Balance Sheet and Dividends

Net cash applied to continuing operations was \$4,928,000 compared to \$1,282,000 provided by operations in 1998. In addition, \$18,387,000 in net cash was provided from the divestiture of the Heating Group of companies. Year-end cash and short term investments totaled \$31,150,000. In July, GSW Inc. paid its regular annual dividend of \$0.20 per share on both its Class "A" Common Shares and Class "B" Subordinate Voting Shares.

In early May, GSW Inc. announced that the Toronto Stock Exchange ("TSE") had accepted notice of a normal course issuer bid by the Company for

purchases of its Class "A" and Class "B" shares through the facilities of the TSE. We believe the purchase of the shares to be a prudent use of funds. During 1999, 27,100 Class "A" Common Shares and 47,230 Class "B" Subordinate Voting Shares were purchased for cash consideration of \$1,148,000 resulting in an excess of purchase price above book value of \$1,102,000. All purchased shares are to be cancelled.



Board of Directors and Executives

At the last Annual Meeting, Robert A. Stevens and Gordon M. Farquharson reached the mandatory retirement age after serving as Directors for 37 years and 26 years respectively. Their guidance, counsel and enthusiasm will be greatly missed and the Board of Directors wishes to acknowledge the significant contributions they made to the growth of the Company.

In July, 1999 Robert B. Harris was appointed President of the GSW Pump Company after successfully managing the Company's exit from the Heating Products segment.

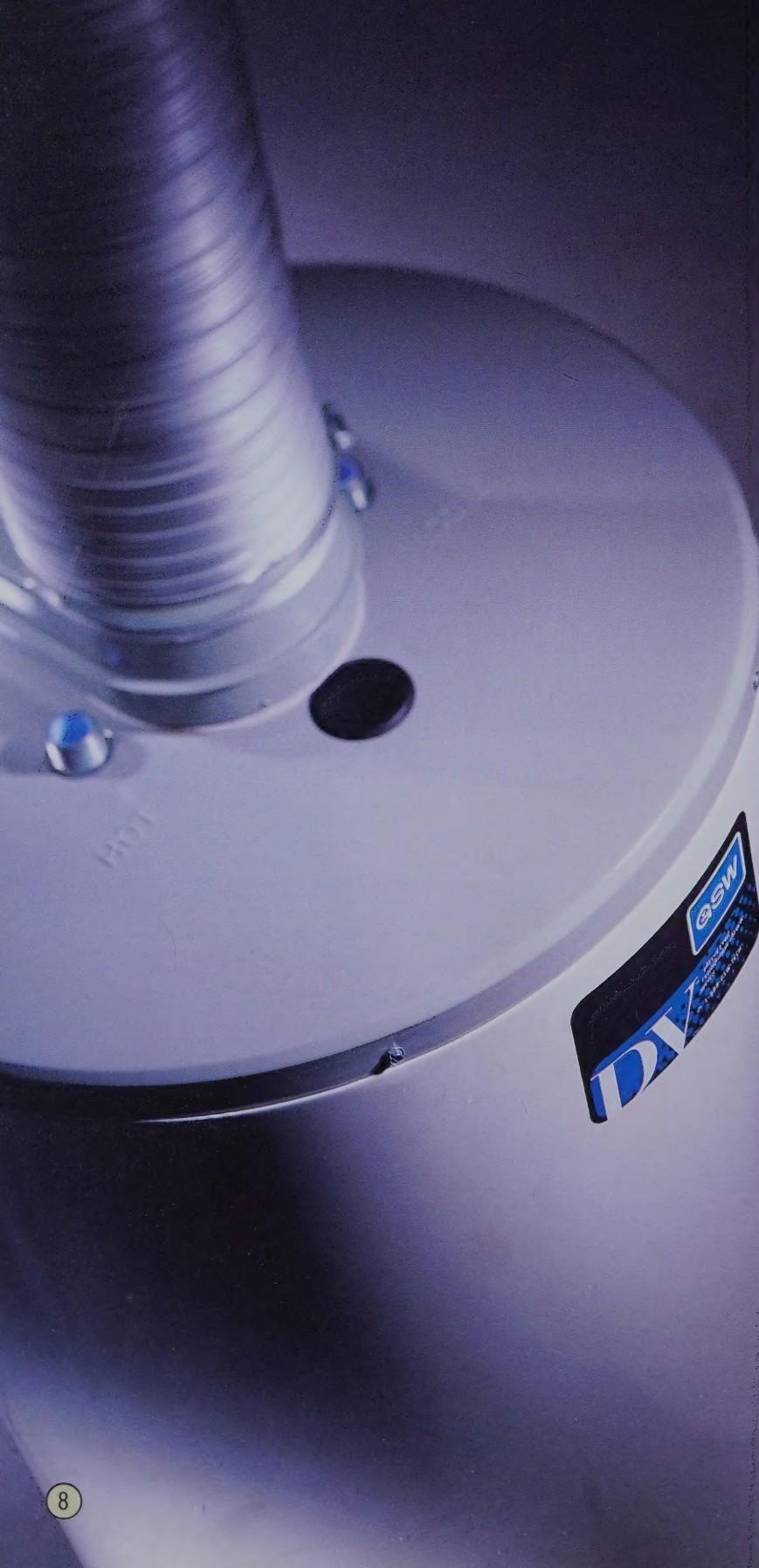
During the year, Robert R. Cranston was appointed Corporate Secretary of the Company.

While the past few years have seen significant changes in the Company, we are confident that we have now established a solid foundation for growth into the future. We thank the employees for their efforts over the past year, and our shareholders for their continuing loyalty.

On behalf of the Board,

R.M. Barford
Chairman

J.A. Barford
Vice-Chairman



Water Heating Products

GSW Water Heating is the leading manufacturer of water heaters in Canada and is quickly gaining recognition as a reputable, innovative and dependable supplier to the U.S. market.

During the past year, the DV™ direct vent water heater, which has many added benefits, was introduced to the market. It requires no chimney, uses outside air for combustion, performs well in Northern climates and is extremely quiet. A flexible vent kit allows for easy installation. The product has been well received by builders and consumers who wish to take advantage of the low cost of natural gas while avoiding the noise and complexity of a power vented installation.

The John Wood PRO and PRO Elite series of water heaters were launched in the second half of 1999. Designed after extensive consultations with plumbers and installers, the line has many features and time saving benefits that professionals' demand. Extensive training and certification programs are planned to support this initiative in the first half of 2000.

Manufacturing capacity was increased approximately 30% by extending and upgrading the enameling oven during the summer vacation shutdown.

The Pull System of manufacturing is now fully implemented resulting in feedback from our customers that confirms the best "ship on time complete" record in the industry.



Thermoplastic Products

GSW Thermoplastics manufactures building products which enhance the comfort, value and safety of residential living.

The company is a market leader in the manufacture of vinyl gutter systems sold by the retail channel throughout North America. TuffFlo™ gutter systems are merchandised in either component or kit form and provide the retailer with options for the best utilization of their retail space. A number of key gutter accessory items are available to support the product line and present excellent cross merchandising opportunities within the retail environment.



YARDCRAFTERS™ building products are designed to meet the growing market trend for improved building products that offer maintenance free characteristics and superior aesthetics. Each of these products is designed for both DIY consumers and professional contractors.

All of the vinyl railing systems are engineered to meet the most stringent residential North American building codes.

The YARDCRAFTERS™ Propack program offers a variety of railing styles and accessory items geared for the professional contractor. The Component system program is designed to meet the merchandising needs of the retail channel.

During 1999, the YARDCRAFTERS™ family of products was expanded to include both vinyl fencing and a vinyl decking system. Vinyl fencing is presented in a variety of styles and heights. YARDCRAFTERS™ vinyl decking system is a perfect complement for the vinyl railing products. The decking system is available in a number of colors and is an excellent choice for residential decks or docks.

All of the Thermoplastic building materials provide the consumer with superb appearance qualities and the benefit of long term durability and reduced maintenance. These quality products are confidently backed with lifetime warranties.

Pump Products

In response to the ongoing requirements to meet more stringent customer service levels, the consolidation of all operations into the Conway, Arkansas facility was completed during 1999. Orders are now shipped to several major Canadian customers directly from Conway, while the remaining requirements are efficiently serviced through strategically located warehouses managed by a professional third party logistics firm.

The establishment of a single location for manufacturing operations

and support services has enhanced the lines of communication and simplified manufacturing. As a result, new approaches were introduced to scheduling and warehouse operations that allowed the company to significantly improve its delivery performance to customers.

GSW's Diamond™ line of retail products is the most extensive in the industry and continues to capture market share.

Through its pro-channel Aermotor™ product line, GSW continues to gain recognition as one of North America's

leading manufacturers of submersible water-well pumps. This position has been established through the development of value creating initiatives to support the contractor market, a renewed emphasis on engineered quality improvements and by being an active voice in promoting the industry's activities through the Water Systems Council and the National Groundwater Association.





GSW Inc. Financial Information

Management's Responsibility for Financial Reporting

December 31, 1999 and 1998

The accompanying financial statements of GSW Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

GSW Inc. maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets

are appropriately accounted for and adequately safeguarded. In addition, GSW Inc. has appropriate policies and procedures dealing with the protection of the environment and safety in the workplace. Compliance reviews are conducted to provide reasonable assurance that they are effective.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit, Environmental & Pension Committee.

The Audit, Environmental & Pension Committee is appointed by the Board with a majority of its members being outside directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal financial controls, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the annual report, the financial statements and the external auditors' report. The Committee

reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The Company's financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit, Environmental & Pension Committee.


J.A. Barford

Vice-Chairman



P.R. Martineau
Vice-President & CFO

Auditors' Report to the Shareholders of GSW Inc.

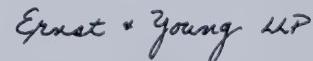
We have audited the consolidated balance sheets of GSW Inc. as at December 31, 1999 and 1998 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and

perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999

and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.



Chartered Accountants
Kitchener, Canada,
February 2, 2000.

Consolidated Balance Sheets

As at December 31

(In thousands of dollars)

Assets	1999	1998
Current		
Cash	\$ 1,150	\$ 7,691
Temporary investment (note 3)	30,000	10,000
Accounts receivable (note 4)	24,541	25,205
Inventories	31,055	23,536
Prepaid expenses	1,568	1,556
Income taxes recoverable	—	564
Current assets of discontinued operations (note 2)	—	12,045
Total current assets	88,314	80,597
Capital assets (note 5)	11,970	10,715
Capital assets of discontinued operations (note 2)	—	4,615
Deferred income taxes	2,491	2,384
Total operating assets	102,775	98,311
Investment in Camco Inc. (note 6)	13,100	13,100
Total assets	\$ 115,875	\$ 111,411

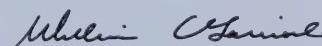
Liabilities and Shareholders' Equity	1999	1998
Current		
Accounts payable and accrued liabilities	\$ 30,603	\$ 33,688
Income taxes payable	4,738	—
Current liabilities of discontinued operations (note 2)	—	5,699
Total current liabilities	35,341	39,387
Warranty provision	4,100	3,309
Total liabilities	39,441	42,696
Shareholders' equity		
Share capital (note 8)	2,225	2,271
Retained earnings	73,548	63,826
Foreign currency translation adjustment	661	1,793
Foreign currency translation adjustment of discontinued operations	—	825
Total shareholders' equity	76,434	68,715
Total liabilities and shareholders' equity	\$ 115,875	\$ 111,411

See accompanying notes.

On behalf of the Board:



E.A. Kukiel
Director



W.C. Garriock
Director

GSW Inc.
(Incorporated under the laws of Canada)

Consolidated Statements of Income and Retained Earnings

Years ended December 31

(In thousands of dollars except per share data)

	1999	1998
Sales	\$ 227,127	\$ 212,656
Operating costs		
Cost of sales, selling and administrative expenses before the following items (note 9)	215,129	208,762
Amortization	2,575	2,319
Interest income	(935)	(221)
	216,769	210,860
Income from continuing manufacturing operations before income taxes	10,358	1,796
Income taxes (note 10)	3,988	692
Net income from continuing manufacturing operations	6,370	1,104
Investment income (note 6)	720	640
Net income from continuing operations	7,090	1,744
Net income (loss) from discontinued operations (note 2)	4,456	(1,070)
Net income	11,546	674
Retained earnings, beginning of year	63,826	63,887
Dividend of \$0.20 per share	(722)	(735)
Excess over stated value of shares purchased for cancellation (note 8)	(1,102)	—
Retained earnings, end of year	\$ 73,548	\$ 63,826
Earnings (loss) per common share:		
Continuing	\$ 1.95	\$ 0.47
Discontinued	1.23	(0.29)
Net earnings per common share	\$ 3.18	\$ 0.18

See accompanying notes.

Consolidated Statements of Cash Flows

Years ended December 31

(In thousands of dollars)

	1999	1998
Operating Activities		
Net income from continuing manufacturing operations	\$ 6,370	\$ 1,104
Items not involving cash:		
Amortization	2,575	2,319
Deferred income taxes	(107)	(242)
	8,838	3,181
Net change in non-cash working capital balances related to operations	(8,625)	484
Cash provided by continuing operating activities	213	3,665
Investing Activities		
Purchase of capital assets	(3,991)	(2,288)
Dividend from Camco Inc. (note 6)	720	640
Cash (applied to) continuing investing activities	(3,271)	(1,648)
Financing Activities		
Dividends paid	(722)	(735)
Repurchase of share capital	(1,148)	—
Cash (applied to) continuing financing activities	(1,870)	(735)
Net cash (applied to) provided by continuing operations	(4,928)	1,282
Net cash provided by (applied to) discontinued operations	18,387	(839)
Net cash provided during year	13,459	443
Cash and cash equivalents, beginning of year	17,691	17,248
Cash and cash equivalents, end of year	\$ 31,150	\$ 17,691
Cash and cash equivalents consists of:		
Cash	\$ 1,150	\$ 7,691
Temporary investments	30,000	10,000
	\$ 31,150	\$ 17,691

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended December 31, 1999 and 1998

1. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed in the preparation of the consolidated financial statements.

Principles of consolidation

The financial statements include the accounts of the Company and its subsidiaries on a consolidated basis.

Inventories

Inventories are valued at the lower of cost and market. Cost is determined principally on a first-in, first-out basis. Cost includes material, labour and variable and fixed manufacturing overhead costs. Market value is net realizable value for finished goods and work-in-process, and replacement cost for raw materials.

Capital assets and amortization

Capital assets are stated at acquisition cost, including transportation and installation charges. Generally, amortization is determined using the declining balance method. Amortization rates used are principally 5% for buildings, 20% for machinery and equipment and 5 years straight-line for computer systems. Capital assets which are no longer in productive use are written down to net realizable value.

Investment in Camco Inc.

The investment in Camco Inc. is accounted for on a cost basis. Under the cost method, dividends are recorded as income and the carrying value of the investment is adjusted only when a decline in the market value is considered to be other than temporary. Prior to October 1, 1995, the investment was accounted for on an equity basis. Under the equity method, the value of the investment was

adjusted for the proportionate share of Camco Inc.'s income or loss and was reduced by dividends received.

Warranty provision

Anticipated costs related to product warranty are recorded in the year in which the product is sold.

Cash and temporary investments

Cash and temporary investments consists of balances with banks and investments in other commercial instruments with terms to maturity of three months or less. These instruments are carried at cost which approximates market value.

Pension costs and obligations

The Company contributes to a number of defined contribution pension plans for salary and hourly employees. Pension costs are charged to operations as contributions are made.

Foreign currency

The accounts of self-sustaining foreign operations are translated using the current rate method, whereby assets and liabilities are translated at the rate in effect at year-end and revenues and expenses at the average rate for the year. Unrealized translation gains and losses are deferred and included as a separate component of shareholders' equity.

Foreign currency transactions are translated into Canadian dollars at the rate of exchange at the date of the transaction. Foreign currency

balances are translated using the rate of exchange in effect at the end of the year and any resulting gains or losses are included in income.

Income taxes

The Company follows the deferral method of income tax allocation such that timing differences occurring in the calculation of taxable income and accounting income give rise to deferred income taxes.

Measurement uncertainty

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

Other significant policies

Research costs are expensed as incurred. Engineering and tooling costs have been treated in a similar manner. Development costs are expensed as incurred unless a project meets the criteria of generally accepted accounting principles for deferral and amortization.

Notes to Consolidated Financial Statements (continued)

2. Discontinued Operations

In September 1998, the Company adopted a formal plan to exit its Heating line of business. The operations comprising the Heating segment represented revenues of \$43,413,000 and an operating loss before income taxes recovery of \$1,740,000 (net loss, after income tax recovery, of \$1,070,000) for the period January 1, 1998 to the date of adoption of the plan. Since it was anticipated that a net book gain would arise on disposal, no further costs were recognized in 1998 relating to the exit plan. As the Heating line of business comprised a distinct operating segment, its results were presented as a discontinued operation in these financial statements.

During the 1999 fiscal year, the Company concluded the sale of all of the various product lines comprising the Heating operations. The net proceeds of sale of approximately \$14,950,000 resulted in a gain of \$4,456,000 (net of income taxes of \$2,130,000), which has been recorded as net income from discontinued operations.

3. Temporary Investments

The temporary investments consist of notes bearing interest at 5.07% per annum which mature in January 2000. The carrying amount approximates fair value because of the short-term maturity of the instruments.

4. Accounts Receivable

While the Company sells its product to many customers, one customer represents 14% (17% in 1998) of the accounts receivable year-end balance.

5. Capital Assets

Capital assets are comprised of the following:

(In thousands of dollars)	Cost	Accumulated Amortization	Net Book Value
1999			
Land	\$ 445	\$ —	\$ 445
Buildings	5,794	2,867	2,927
Machinery and equipment	36,962	28,730	8,232
Computer systems	1,608	1,242	366
	\$ 44,809	\$ 32,839	\$ 11,970
1998			
Land	\$ 456	\$ —	\$ 456
Buildings	5,754	2,738	3,016
Machinery and equipment	33,547	26,820	6,727
Computer systems	1,640	1,124	516
	\$ 41,397	\$ 30,682	\$ 10,715

6. Camco Inc.

The Company owns 4,001,800 (20%) of the common shares of Camco Inc., with a value at December 31, 1999 of \$16,207,290 (1998: \$17,207,740), based on the market price quoted on The Toronto Stock Exchange. This value makes no provision for any income taxes which may become payable on disposition of the shares. The realizable value of this investment may be more or less than that indicated by the market quotation less applicable income taxes. During the year, the Company received dividends in the amount of \$720,324 (\$640,288 in 1998).

7. Financial Instruments

The Company's accounts receivable relate primarily to product sales to a diverse range of customers in Canada and the United States. Credit limits, credit evaluation and account monitoring procedures are used to minimize risk of loss. The carrying value of the Company's financial instruments is not materially different from fair values.

Notes to Consolidated Financial Statements (continued)

8. Share Capital

The authorized capital of the Company consists of an unlimited number of Class "A" common shares without nominal or par value, an unlimited number of Class "B" subordinate voting shares without nominal or par value, and an unlimited number of preference shares without nominal or par value.

The Class "A" shares have identical terms and features as the Class "B" shares, except that the Class "A" shares have 100 votes per share and the Class "B" shares have one vote per share. A holder of Class "A" shares may, at any time, convert them into an equal number of Class "B" shares.

The details of issued share capital are as follows:

	Number issued and outstanding	1999 Amount (000's)	Number issued and outstanding	1998 Amount (000's)
Class "A" common	789,653	\$ 465	1,170,151	\$ 689
Class "B" subordinate voting	2,809,768	1,760	2,503,600	1,582
	3,599,421	\$ 2,225	3,673,751	\$ 2,271

On January 1, 1999, a total of 353,398 Class "A" common shares were converted on a one-for-one basis to Class "B" subordinate voting shares.

In May 1999, the Company was granted acceptance by The Toronto Stock Exchange ("TSE") of its application to undertake a normal course issuer bid for purchases of its Class "A" common shares and Class "B" subordinate voting shares through the facilities of the TSE. During 1999, the Company purchased 27,100 Class "A" common shares and 47,230 Class "B" subordinate voting shares for \$1,148,000 representing an average purchase price of \$15.45 per share. All purchased shares are to be cancelled. The excess of the purchase price over the stated value was \$1,102,000. This amount has been recorded as a charge to retained earnings.

Executive Stock Option Plan

On April 29, 1993, the shareholders approved an Executive stock option plan, pursuant to which a maximum aggregate of 180,000 Class "B" subordinate voting shares have been reserved for grant to key personnel. Under the plan, the option price may not be less than the fair market value of the stock at the time the options are granted. At December 31, 1999, there were no options granted under this plan.

9. Research and Development

Operating costs include expenditures for research and development of \$2,098,000 in 1999 (1998 - \$2,088,000).

10. Income Taxes

The Company's provision for income taxes is comprised of:

(In thousands of dollars)	1999	1998
Income taxes based on combined statutory tax rates		
Canadian federal and provincial - 44%	\$ 2,623	\$ (902)
U.S.A. federal and state - 38%	1,697	1,461
	\$ 4,320	\$ 559
Change in income taxes		
Manufacturing and processing operations	(403)	123
Other items	71	10
	\$ 3,988	\$ 692

Income taxes paid during 1999 were \$954,000 (\$1,628,000 in 1998).

Notes to Consolidated Financial Statements (continued)

11. Segmented Information

The Company's continuing manufacturing operations consist of three operating segments, all of which manufacture products primarily for the residential building products industry. As these segments have similar economic and operating characteristics, they have been aggregated as one segment.

The following geographic information is presented based on the location of the capital assets, or in the case of sales, the location of the ultimate customer.

<i>(In thousands of dollars)</i>	<i>Sales</i>		<i>Capital assets</i>	
	<i>1999</i>	<i>1998</i>	<i>1999</i>	<i>1998</i>
Canada	\$ 101,327	\$ 105,422	\$ 9,065	\$ 7,810
USA	125,800	107,234	2,905	2,905
Total	\$ 227,127	\$ 212,656	\$ 11,970	\$ 10,715

Sales to one customer, substantially all of which are in the US marketplace, represent 21% (18% in 1998) of the Company's revenues.

Vinyl Products

GSW Thermoplastics

26 Lorena Street
Barrie, Ontario L4N 4P4
Tel: (705) 728-7141
Fax: (705) 739-0385

Management

Brian Bacik
President
Mike Cook
Director of Operations
Bob East
V.P. Sales
Harold Hay
V.P. Finance & Administration
Glen Warnica
Director of Marketing

Products

- *Vinyl rain-carrying systems*
- *Vinyl railing, fencing & decking*

Water Heating Products

GSW Water Heating

599 Hill Street West
Fergus, Ontario N1M 2X1
Tel: (519) 843-1610
Fax: (519) 843-6121

Management

Terry Parsons
President
Tom Glover
V.P. Manufacturing
Roger Lippert
V.P. Human Resources
Doug Melien
V.P. Marketing & Sales
Mike Paquette
V.P. Finance

Products

- *Electric, gas and oil-fired water heaters*
- *Storage vessels*

Pump Products

Aermotor Pumps, Inc.

584 Commerce Road
Conway, Arkansas 72032
Tel: (501) 329-9811
Fax: (501) 329-9812

Management

Rob Harris
President
Michael Hickman
V.P. Engineering
Terry Moser
V.P. Operations
Jim Pflugrad
V.P. Sales & Marketing,
Professional
Jay Svendsen
Manager, Order Fulfilment

Products

- *Water system pumps*
- *Sewage and effluent pumps*
- *Sump and utility pumps*
- *Commercial and irrigation pumps*
- *Fountain pumps*
- *Tanks and accessories*



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